

**TERRIL COMMUNITY
SCHOOL DISTRICT**
**Independent Auditor's Report
Basic Financial Statements
and Supplementary Information
Schedule of Findings**
June 30, 2005

DAVID A. MASKE
Certified Public Accountant
Spencer, Iowa

TERRIL COMMUNITY SCHOOL DISTRICT

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TERRIL COMMUNITY SCHOOL DISTRICT

OFFICIALS

NAME	TITLE	TERM EXPIRES
BOARD OF EDUCATION (Before September 2004 Election)		
Kelvin Sawyer (Resigned)	President	
Larry Flaherty	Vice-President	2004
Galen Chicoine	Board Member	2005
Jodi Oleson	Board Member	2006
Amy Woodruff	Board Member	2004

BOARD OF EDUCATION (After September 2004 Election)		
Larry Flaherty	President	2007
Galen Chicoine	Vice-President	2005
Jodi Oleson	Board Member	2006
Amy Woodruff	Board Member	2005
Craig Ven Ehwegen	Board Member	2006

SCHOOL OFFICIALS		
Dan Mart	Superintendent	2005
Karen Oleson	District Secretary/Treasurer	Indefinite

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Terril Community School District:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Terril Community School District, Terril, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

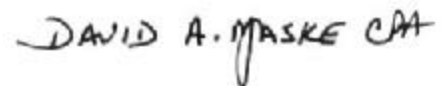
I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Terril Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my reports dated December 14, 2005, on my consideration of Terril School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 14 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Terril Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the aforementioned statements taken as a whole.



DAVID A. MASKE
Certified Public Accountant

December 14, 2005
Spencer, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Terril Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Terril Community School District as a whole and represent an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Terril Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Terril Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditure of Federal Awards provides details of various programs benefiting the District.

- The 2004-05 school year marked the first year of a three year whole grade sharing agreement with Graettinger Community School. All of Terril's high school students (grades 9 to 12) were shuttled to Graettinger. In turn, all of Graettinger's middle school students (grades 6 to 8) were bussed to Terril. The new structure resulted in two sections of the middle school grades. Teachers were again assigned by subject matter and a reading teacher was added.
- The district's overall financial position in the General Fund worsened again compared to the prior year. The unreserved / undesignated general fund balance decreased from \$362,435 to \$233,174. With this decline, the district's solvency ratio is still slightly above the target range of 5%-10% that most districts try to maintain.
- The certified enrollment count taken on September 17, 2004, was 209.1. This count represents 11 students more than the prior year. This reverses the downward trend in enrollment that had resulted in a loss of 44 students since the 1999-2000 school year.
- In the 2004-05 school year we had 54.1 students open enroll out and 10 students open enroll in. This compares to 35.1 open enrolled out in the prior year and 10 open enrolled in.
- The Special Education Program ended fiscal year 2005 with a positive balance of \$4,190. This is compared to a balance of (\$11,745) in the prior year. The program has ended the year with a positive balance in only two of eighteen years. In the last five years, negative balances have ranged from \$3,779 to \$35,024. In the 2004-05 school year, twenty students were sent or open enrolled out to other districts resulting in \$162,380 in tuition paid to other schools for special education.
- Medical costs have increased steadily in recent years. In the 2004-05 school year medical costs in the General Fund totaled over \$109,000. The district had been with the self-insured Iowa School Employees' Benefit Association (ISEBA) plan. However, beginning July 1, 2004 ISEBA dissolved their self-insured plan and partnered with Blue Cross/Blue Shield of Iowa. Because of the short notice the district received regarding the changes, the district was forced to continue with the new plan. However, a change was made starting October 1, 2004 which resulted in savings of 25 percent on premium costs. Overall, medical costs for the 2005 fiscal year were down 6.8 percent.
- Several teachers resigned at the end of the 2004 school year to take advantage of the early retirement plan. Calista Boeve resigned as high school special education teacher and counselor. Ann Harves was the Talented and Gifted (TAG) teacher and was replaced by reassigning Nancy Dau as part preschool, part TAG teacher. Elementary teachers Charlene Radcliffe and Dorothy Swenson also resigned. These resignations resulted in savings for the General Fund.
- Capital project revenue totaled \$231,691 from Local Option Sales Tax in Emmet and Dickinson counties. Clay county's School Improvement Local Option tax receipts for the year totaled \$50,102. The district awarded bids for a major remodeling of the second floor which included moving the library to the second floor and gutting the restrooms and installing all new components. All the middle school classrooms will now be on the third floor. A major flood in the basement resulted in the wood floor being totally removed. Also, new energy efficient lighting was installed in the gym. It will take most of the receipts from fiscal year 2006 to pay for all the costs of these projects.
- Although revenue from the state increased slightly in FY2005, that was offset by declines in both local and federal revenue. Overall, revenue receipts were down about two percent.
- The Day's Net Cash Ratio shows the effect of deficit spending. On June 30, 2005 the District had a cash balance of \$302,156. This amount, when divided by FY2005 average daily expenditures of \$5,048, yields 60 days of operating cash flow. This indicates that the district still has sufficient cash reserves to operate until September, when the first payment of state aid is received.

FINANCIAL INDICATOR SUMMARY SHEET

	2001	2002	2003	2004	2005
Balance Sheet Comparison					
% of Change between years:					
Assets	-16.6%	1.7%	23.1%	-17.2%	-20.1%
Liabilities	-4.3%	2.0%	99.5%	-21.9%	344.0%
Fund Balance	16.9%	1.7%	21.0%	17.0%	35.7%
Rev. & Expend. Comparison					
% of Change between years:					
Revenues	-3.9%	1.8%	10.4%	-3.6%	-1.8%
Expenditures	-1.5%	-2.9%	6.2%	-4.9%	1.3%
Fund Balance	121.6%	108.4%	1154.5%	197.8%	74.5%
Financial Solvency Ratio ,					
District Equity Position	20.19%	20.72%	23.04%	19.84%	12.93%
Unspent Balance Ratio,					
Unbudgeted Spending Reserves:					
Regular	16.05%	17.52%	18.03%	13.44%	12.56%
Unreserved	14.57%	16.45%	17.09%	12.66%	11.99%
Rev. & Expend. Change Ratio					
Measures Trends	2.5 : 1	.6 : 1	1.7 : 1	.8 : 1	1.2: 1
Rev. (Deficit) Margin Ratio					
Measures Operating Results	-4.47%	0.37%	4.19%	-4.25%	-7.55%
Contribution Ratio,					
Measures Local Taxation Effort:					
Property Tax / Income Surtax	44.9%	48.5%	50.3%	50.6%	45.2%
Other Local	7.0%	5.4%	8.6%	5.8%	8.8%
State	45.7%	41.4%	37.1%	39.1%	41.6%
Federal	2.4%	4.7%	4.0%	4.5%	4.4%
Day's Net Cash Ratio					
Short Term Solvency (Days)	79	83	96	76	60
Assets to Liab. Ratio,					
Measures Short-term Solvency	3728.55%	3718.12%	2294.58%	2433.02%	438.02%

Balance Sheet Comparisons General Fund Only

	FY02	\$ Change	% Change	FY03	\$ Change	% Change	FY04	\$ Change	% Change	FY05	\$ Change	% Change	
Assets:													leacar
Cash & Investments	\$ 297,450	\$ 19,667	7.1%	\$ 409,082	\$ 111,632	37.5%	\$ 328,303	\$ (80,779)	-19.7%	\$ 258,297	\$ (70,006)	-21.3%	P2L1-2
Receivables	\$ 73,321	\$ (13,436)	-15.5%	\$ 47,332	\$ (25,989)	-35.4%	\$ 49,667	\$ 2,335	4.9%	\$ 43,859	\$ (5,808)	-11.7%	P2L3-7
Inventories		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%	P2L8
ISCAP		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%	P2L10-11
Other Assets		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%		\$ -	0.0%	P2L12
Total Assets	\$ 370,771	\$ 6,231	1.7%	\$ 456,414	\$ 85,643	23.1%	\$ 377,970	\$ (78,444)	-17.2%	\$ 302,156	\$ (75,814)	-20.1%	
Liabilities:													leacar
Payables	\$ 1,604	\$ (4,114)	-71.9%	\$ 60	\$ (1,544)	-96.3%	\$ 12,180	\$ 12,120	20200.0%	\$ 65,104	\$ 52,924	434.5%	P2L24-29
Payroll	\$ 8,368	\$ 4,279	104.6%	\$ 19,831	\$ 11,463	137.0%	\$ 3,355	\$ (16,476)	-83.1%	\$ 3,878	\$ 523	15.6%	P2L30-31
ISCAP	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	P2L33-34
Other Liabilities	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	P2L32&35
Total Liabilities	\$ 9,972	\$ 195	2.0%	\$ 19,891	\$ 9,919	99.5%	\$ 15,535	\$ (4,356)	-21.9%	\$ 68,982	\$ 53,447	344.0%	
Fund Balance:													leacar
Reserved	\$ 21,273	(\$8,571)	-28.7%	\$ 19,835	(\$1,438)	-6.8%	\$ 16,462	(\$3,373)	-17.0%	\$ 11,671	(\$4,791)	-29.1%	P2L44-53
Unreserved	\$ 339,526	\$14,607	4.5%	\$ 416,688	\$77,162	22.7%	\$ 345,973	(\$70,715)	17.0%	\$ 221,503	(\$124,470)	36.0%	P2L54
Total Fund Balance	\$ 360,799	\$6,036	1.7%	\$ 436,523	\$75,724	21.0%	\$ 362,435	(\$74,088)	17.0%	\$ 233,174	(\$129,261)	35.7%	

Revenue & Expenditures Comparison General Fund Only

	FY02	\$ Change	% Change	FY03	\$ Change	% Change	FY04	\$ Change	% Change	FY05	\$ Change	% Change	
Revenues:													leacar
Local sources	\$882,952	\$47,697	5.7%	\$1,065,758	\$182,806	20.7%	\$983,896	(\$81,862)	-7.7%	\$924,319	(\$59,577)	-6.1%	P5L39
State sources	\$678,043	(\$56,785)	-7.7%	\$670,145	(\$7,898)	-1.2%	\$682,073	\$11,928	1.8%	\$712,627	\$30,554	4.5%	P5L54
Federal sources	\$77,508	\$38,664	99.5%	\$72,948	(\$4,560)	-5.9%	\$77,758	\$4,810	6.6%	\$76,147	(\$1,611)	-2.1%	P5L78
Other sources	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0	0.0%	P5L84
Total revenues	\$1,638,503	\$29,576	1.8%	\$1,808,851	\$170,348	10.4%	\$1,743,727	(\$65,124)	-3.6%	\$1,713,093	(\$30,634)	-1.8%	
Expenditures:													leacar
Instruction	\$1,144,181	(\$5,031)	-0.4%	\$1,255,924	\$111,743	9.8%	\$1,306,112	\$50,188	4.0%	\$1,266,695	(\$39,417)	-3.0%	P6L1-7
Support services	\$405,904	(\$38,557)	-8.7%	\$400,612	(\$5,292)	-1.3%	\$434,739	\$34,127	8.5%	\$502,675	\$67,936	15.6%	P6L8-24
Non-instructional	\$17,468	(\$1,191)	-6.4%	\$12,376	(\$5,092)	-29.2%	\$15,134	\$2,758	22.3%	\$12,525	(\$2,609)	-17.2%	P6L25-30
Other expenditures	\$64,914	(\$3,672)	-5.4%	\$64,215	(\$699)	-1.1%	\$61,830	(\$2,385)	-3.7%	\$60,459	(\$1,371)	-2.2%	P6L31-33
Total expenditures	\$1,632,467	(\$48,451)	-2.9%	\$1,733,127	\$100,660	6.2%	\$1,817,815	\$84,688	4.9%	\$1,842,354	\$24,539	1.3%	
Changes in fund balance:													
Excess/(deficiency) of revenues over/(under) expenditures	\$6,036	\$78,027	108.4%	\$75,724	\$69,688	1154.5%	(\$74,088)	(\$149,812)	197.8%	(\$129,261)	(\$55,173)	74.5%	

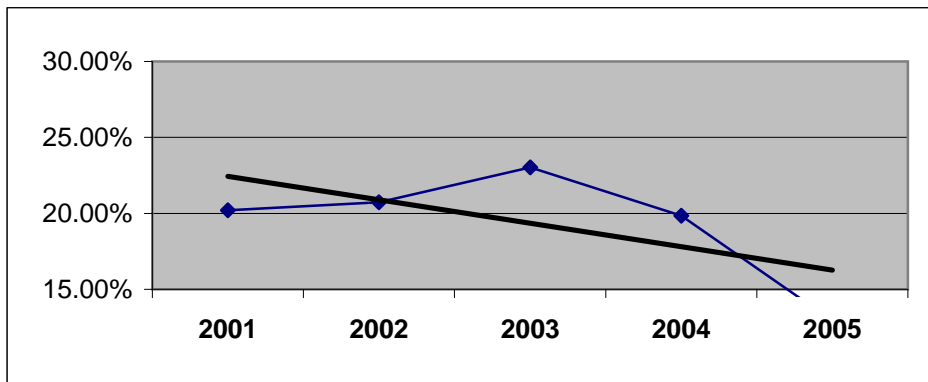
Financial Solvency Ratio

Formula:
$$\frac{\text{Unreserved Undesignated Fund Balance (UUFB)}}{\text{Total GF Revenue}}$$

Financial Information and Computation:

Year		UUFB	Total Revenue	Ratio
2001		\$324,919	\$1,608,927	20.19%
2002		\$339,526	\$1,638,503	20.72%
2003		\$416,688	\$1,808,851	23.04%
2004		\$345,973	\$1,743,727	19.84%
2005		\$221,503	\$1,713,093	12.93%

leacar P2L54 P5L85



Purpose: Measures the District's Fund Equity position

Trend: Down

Target: Short-term greater than zero
Long-term over 5 percent

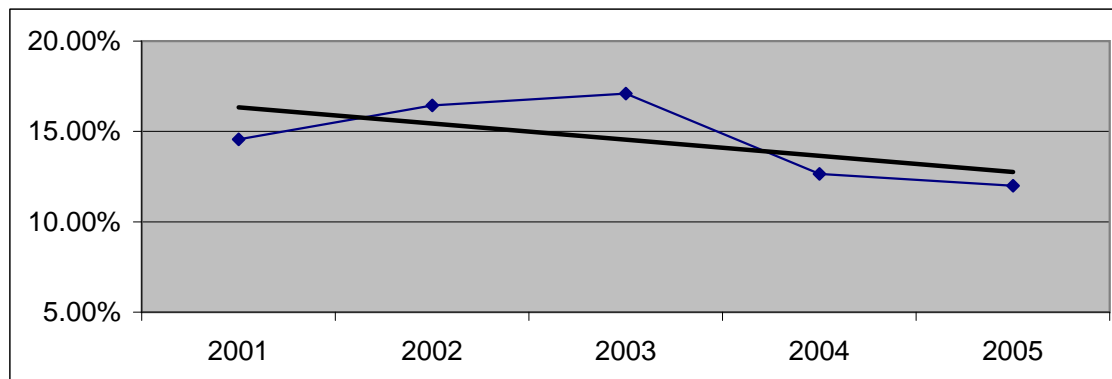
Need/Concern: Although the district is well above the 5% long-term target, the downward trend is a concern.

Unspent Balance Ratio

Formula:
$$\frac{\text{Unspent Spending Authority}}{\text{Maximum Budget Authority}}$$

Financial Information and Computation:

Year	Maximum Authorized	Regular Unspent Bal.	Unreserved Unspent Bal.	Regular UB Ratio	Unreserv. UB Ratio
2001	\$2,011,652	\$322,895	\$293,051	16.05%	14.57%
2002	\$1,979,072	\$346,800	\$325,527	17.52%	16.45%
2003	\$2,102,326	\$379,118	\$359,283	18.03%	17.09%
2004	\$2,105,062	\$282,891	\$266,429	13.44%	12.66%
2005	\$2,045,946	\$257,039	\$245,368	12.56%	11.99%



*Estimated

Purpose: Measures the District's unbudgeted spending reserves

Trend: Down

Target: Unreserved unspent for short-term at 5-10 percent
Long-term 5 percent above accrued payroll liabilities

Need/Concern: An adequate level of budget reserves are important so the District can respond to emergencies. Conventional wisdom, when engaged in construction projects, suggests a minimum of 5% of the total project for contingency expenditures. The Operating Fund is no different.

Corrective Action: Spend less than allowed each budget year.

Revenue & Expenditures Change Ratio

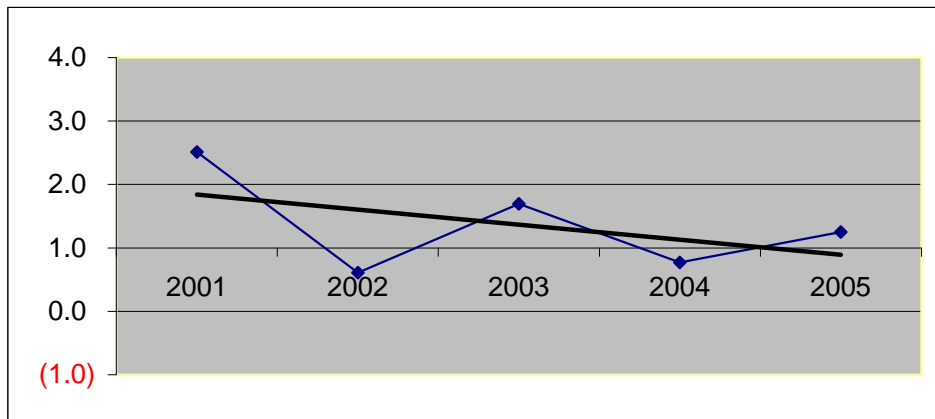
Formula:

$$\frac{\text{Current Year Revenue} - \text{Prior Year Revenue}}{\text{Current Year Expenditures} - \text{Prior Year Expenditures}}$$

Financial Information and Computation:

Year		Revenue	Expenditures	Ratio	
				Rev	Exp
2001		\$1,608,927	\$1,680,918	2.5	1.0
2002		\$1,638,503	\$1,632,467	0.6	1.0
2003		\$1,808,851	\$1,733,127	1.7	1.0
2004		\$1,743,727	\$1,817,815	0.8	1.0
2005		\$1,713,093	\$1,842,354	1.2	1.0

leacar P5L85 P6L34



Purpose:

Measures trends

Trend:

Generally down

Target:

Revenue ratio greater than or equal to expenditure ratio

Need/Concern:

Cause for concern exists when revenue change is less than the expenditure change from one fiscal year to the next. Long-term this has the effect of eroding the district's fund balance position.

Corrective Action:

Spend less than revenue received in the year.

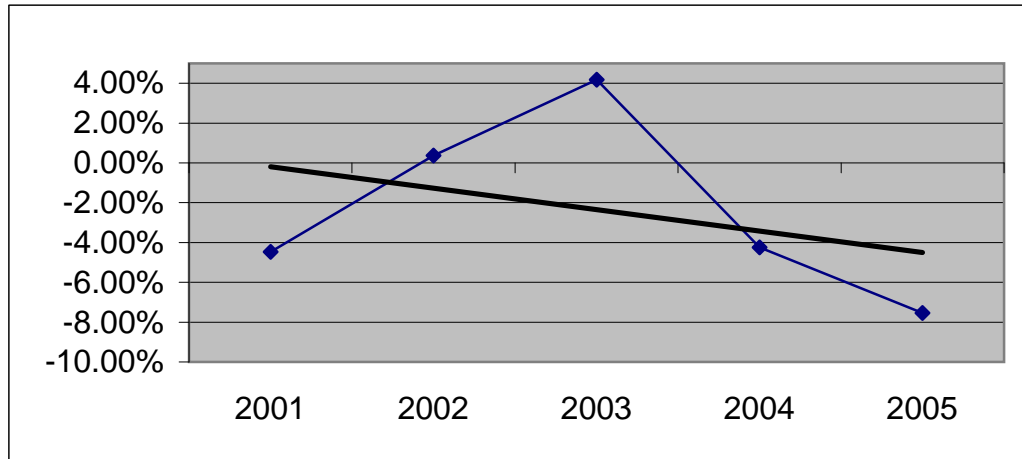
Revenue (Deficit) Margin Ratio

Formula:
$$\frac{\text{Revenue} - \text{Expenditures (Net Revenue)}}{\text{Total Revenue}}$$

Financial Information and Computation:

Year	Net revenue (Expenditures)	Total Revenue	Ratio
2001	(\$71,991)	\$1,608,927	-4.47%
2002	\$6,036	\$1,638,503	0.37%
2003	\$75,724	\$1,808,851	4.19%
2004	(\$74,088)	\$1,743,727	-4.25%
2005	(\$129,261)	\$1,713,093	-7.55%

leacar P5L85-P6L34 P5L85



Purpose: Measures operating results

Trend: Generally down

Target: Greater than zero

Need/Concern: Full funding needed for budget revenue resources.

Corrective Action: Increase revenue sources or reduce expenditures

Contribution Ratio

Formula:
$$\frac{\text{Line Source Revenue}}{\text{Total Revenue}}$$

Financial Information and Computation:

	FY 2004	
Line	Amount	Ratio
Source		
Local	\$983,896	56.4%
State	\$682,073	39.1%
Federal	\$77,758	4.5%
Other	\$0	0.0%
Total	\$1,743,727	100.0%

	FY 2005	
Line	Amount	Ratio
Source		
Local	\$924,319	54.0%
State	\$712,627	41.6%
Federal	\$76,147	4.4%
Other	\$0	0.0%
Total	\$1,713,093	100.0%

leacar

P5L39

P5L54

P5L78

P5L84

	Property Tax/				
Year	Income Surtax	Other Local	State	Federal	
2001	44.9%	7.0%	45.7%	2.4%	100.0%
2002	48.5%	5.4%	41.4%	4.7%	100.0%
2003	50.3%	8.6%	37.1%	4.0%	100.0%
2004	50.6%	5.8%	39.1%	4.5%	100.0%
2005	45.2%	8.8%	41.6%	4.4%	100.0%

Purpose: Measures local taxation effort

Trend: More revenue has been coming from local taxes as state funding has dwindled.

Target: This is controlled by the state legislature.

Need/Concern: As a district's property tax wealth grows the school aid formula shifts financial responsibility from the state to the local district. This can be seen in the table above.

Corrective Action: NA

Day's Net Cash Ratio

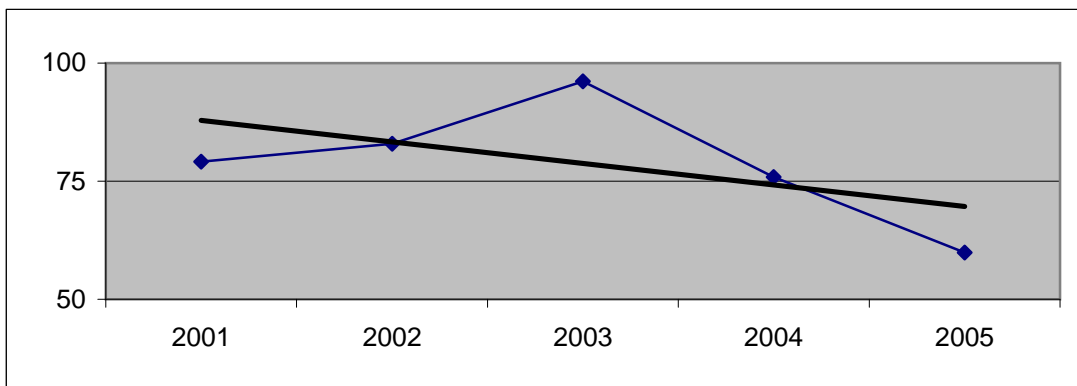
Formula:
$$\frac{\text{Cash \& Investments}}{\text{Average Daily Cash Expenditures}}$$

Financial Information and Computation:

Year	Cash & Investments	Total Expenditures	Daily (365) Expenditures	Ratio In Days
2001	\$364,540	\$1,680,918	\$4,605	79
2002	\$370,771	\$1,632,467	\$4,473	83
2003	\$456,414	\$1,733,127	\$4,748	96
2004	\$377,970	\$1,817,815	\$4,980	76
2005	\$302,156	\$1,842,354	\$5,048	60

leacar-P2L13

leacar-P6L34



Purpose: Measures short-term solvency and the ability to pay expenditures without receiving additional revenue.

Trend: Down

Target: 90 days

Need/Concern: If the downward trend continues, eventually the district will need to borrow funds to be able to cover expenses during times of minimal cashflow in.

Corrective Action: Levy for cash reserve, increase income and/or decrease expenses.

Assets to Liabilities Ratio

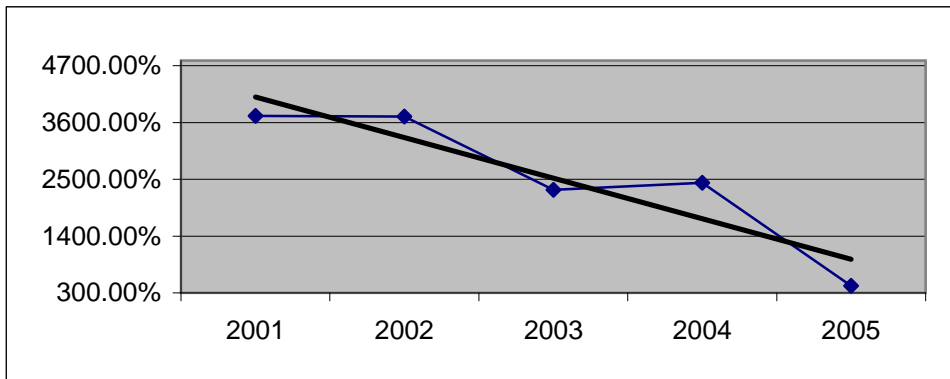
Formula:
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Financial Information and Computation:

Year		Assets	Liabilities	Ratio
2001		\$364,540	\$9,777	3728.55%
2002		\$370,771	\$9,972	3718.12%
2003		\$456,414	\$19,891	2294.58%
2004		\$377,970	\$15,535	2433.02%
2005		\$302,156	\$68,982	438.02%

leacar-P2L13

leacar-P2L36



Purpose: Measures short - term solvency

Trend: Down

Target: Greater than 100%

Need/Concern: When the assets/liabilities ratio is below 100% the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. Should the district seek a bond issue in the future this ratio needs to be greater than 100% to obtain the best bond rating possible.

Corrective Action: Although the district is in excellent condition in terms of short-term solvency, the downward trend indicates the reserves are shrinking. Every effort will be made to slow this trend by increasing revenue and/or decreasing expenditures.

BASIC FINANCIAL STATEMENTS

TERRIL COMMUNITY SCHOOL DISTRICT**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and Cash Equivalents:			
Other	\$ 412,354	\$ 9	\$ 412,363
Receivables:			
Property Tax:			
Delinquent.....	8,447	-0-	8,447
Succeeding Year.....	778,655	-0-	778,655
Accounts	5,021	-0-	5,021
Due from Other Governments	46,843	-0-	46,843
Inventories.....	-0-	3,871	3,871
Capital Assets, Net of Accumulated Depreciation	<u>1,496,124</u>	<u>1,185</u>	<u>1,497,309</u>
TOTAL ASSETS	<u>\$2,747,444</u>	<u>\$ 5,065</u>	<u>\$2,752,509</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 74,007	\$ 488	\$ 74,495
Deferred Revenue – Succeeding Year Property Tax.....	778,655	-0-	778,655
Long-Term Liabilities:			
Portion Due Within One Year:			
Early Retirements	43,338	-0-	43,338
Compensated Absences.....	4,842	-0-	4,842
Portion Due After One Year:			
Early Retirements	<u>116,718</u>	<u>-0-</u>	<u>116,718</u>
TOTAL LIABILITIES	<u>\$1,017,560</u>	<u>\$ 488</u>	<u>\$1,018,048</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$1,496,124	\$ 1,185	\$1,497,309
Restricted for:			
Management Levy	33,857	-0-	33,857
Physical Plant and Equipment Levy.....	112,501	-0-	112,501
Other Special Revenue Purposes	5,833	-0-	5,833
Unrestricted.....	<u>81,569</u>	<u>3,392</u>	<u>84,961</u>
TOTAL NET ASSETS	<u>\$1,729,884</u>	<u>\$ 4,577</u>	<u>\$1,734,461</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICE	OPERATING GRANTS, CONTRIBUTIONS & RESTRICTED INTEREST	CAPITAL GRANTS, CONTRIBUTIONS & RESTRICTED INTEREST	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Functions / Programs:							
Governmental Activities:							
Instruction:							
Regular Instruction	\$ 1,077,960	\$ 144,393	\$ 151,171	\$ -0-	\$ (782,396)	\$ -0-	\$ (782,396)
Special Instruction	272,459	-0-	-0-	-0-	(272,459)	-0-	(272,459)
Other Instruction	54,533	-0-	-0-	-0-	(54,533)	-0-	(54,533)
	<u>\$ 1,404,952</u>	<u>\$ 144,393</u>	<u>\$ 151,171</u>	<u>\$ -0-</u>	<u>\$ (1,109,388)</u>	<u>\$ -0-</u>	<u>\$ (1,109,388)</u>
Support Services:							
Student Services	\$ 30,246	\$ -0-	\$ -0-	\$ -0-	\$ (30,246)	\$ -0-	\$ (30,246)
Instructional Staff Services	10,783	-0-	-0-	-0-	(10,783)	-0-	(10,783)
Administration Services	214,077	-0-	-0-	-0-	(214,077)	-0-	(214,077)
Operation & Maintenance of Plant Services	176,321	-0-	-0-	-0-	(176,321)	-0-	(176,321)
Transportation Services	183,805	-0-	-0-	-0-	(183,805)	-0-	(183,805)
	<u>\$ 615,232</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (615,232)</u>	<u>\$ -0-</u>	<u>\$ (615,232)</u>
Non-Instructional Programs	\$ 28,861	\$ -0-	\$ -0-	\$ -0-	\$ (28,861)	\$ -0-	\$ (28,861)
Other Expenditures:							
Facilities Acquisition	\$ 23,865	\$ -0-	\$ -0-	\$ -0-	\$ (23,865)	\$ -0-	\$ (23,865)
AEA Flowthrough	60,459	-0-	60,459	-0-	-0-	-0-	-0-
	<u>\$ 84,324</u>	<u>\$ -0-</u>	<u>\$ 60,459</u>	<u>\$ -0-</u>	<u>\$ (23,865)</u>	<u>\$ -0-</u>	<u>\$ (23,865)</u>
Total Governmental Activities	\$ 2,133,369	\$ 144,393	\$ 211,630	\$ -0-	\$ (1,777,346)	\$ -0-	\$ (1,777,346)
Business Type Activities:							
Non-Instructional Programs:							
Food Service Operations	76,159	41,923	32,965	-0-	-0-	(1,271)	(1,271)
TOTAL	<u>\$ 2,209,528</u>	<u>\$ 186,316</u>	<u>\$ 244,595</u>	<u>\$ -0-</u>	<u>\$ (1,777,346)</u>	<u>\$ (1,271)</u>	<u>\$ (1,778,617)</u>
General Revenue:							
Property Tax Levied For:							
General Purpose					\$ 661,354	\$ -0-	\$ 661,354
Capital Outlay					75,544	-0-	75,544
Local Option Sales and Service Tax					298,423	-0-	298,423
Unrestricted State Grants					662,651	-0-	662,651
Unrestricted Investment Earnings					15,342	-0-	15,342
Other					19,702	-0-	19,702
TOTAL GENERAL REVENUES					<u>\$ 1,733,016</u>	<u>\$ -0-</u>	<u>\$ 1,733,016</u>
Change in Net Assets					\$ (44,330)	\$ (1,271)	\$ (45,601)
Net Assets – Beginning of Year					1,774,214	5,848	1,780,062
Net Assets – End of Year					<u>\$ 1,729,884</u>	<u>\$ 4,577</u>	<u>\$ 1,734,461</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

	GENERAL	CAPITAL PROJECTS	NONMAJOR SPECIAL REVENUE	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents:				
Other.....	\$ 258,297	\$ -0-	\$ 154,057	\$ 412,354
Receivables:				
Property Tax:				
Delinquent	7,294	-0-	1,153	8,447
Succeeding Year	695,740	-0-	82,915	778,655
Accounts	5,021	-0-	-0-	5,021
Interfund Receivable	21,351	-0-	-0-	21,351
Due from Other Governments	10,193	36,650	-0-	46,843
TOTAL ASSETS	\$ 997,896	\$ 36,650	\$ 238,125	\$ 1,272,671
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 68,982	\$ 2,006	\$ 3,019	\$ 74,007
Interfund Payable	-0-	21,351	-0-	21,351
Deferred Revenue:				
Succeeding Year Property Tax.....	695,740	-0-	82,915	778,655
TOTAL LIABILITIES	\$ 764,722	\$ 23,357	\$ 85,934	\$ 874,013
Fund Balances:				
Unreserved.....	233,174	13,293	152,191	398,658
TOTAL LIABILITIES AND FUND BALANCES	\$ 997,896	\$ 36,650	\$ 238,125	\$ 1,272,671

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

Total Fund Balances of Governmental Funds (Page 17) \$ 398,658

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital Assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental funds 1,496,124

Long-term liabilities, including bonds and notes payable
and compensated absences, are not due and payable in
the current period and, therefore, are not reported in the
funds (164,898)

Net Assets of Governmental Activities (Page 15) \$ 1,729,884

TERRIL COMMUNITY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2005

	GENERAL	CAPITAL PROJECTS	NONMAJOR SPECIAL REVENUE	TOTAL
Revenues:				
Local Sources:				
Local Tax	\$ 774,072	\$ 246,164	\$ 75,544	\$ 1,095,780
Tuition	78,458	-0-	-0-	78,458
Other	71,789	75	29,067	100,931
Intermediate Sources	-0-	-0-	48	48
State Sources	712,627	-0-	25,048	737,675
Federal Sources	76,147	-0-	-0-	76,147
TOTAL REVENUES	\$ 1,713,093	\$ 246,239	\$ 129,707	\$ 2,089,039
Expenditures:				
Current:				
Instruction:				
Regular Instruction	\$ 964,182	\$ -0-	\$ 97,432	\$ 1,061,614
Special Instruction	272,459	-0-	-0-	272,459
Other Instruction	54,533	-0-	-0-	54,533
	<u>\$ 1,291,174</u>	<u>\$ -0-</u>	<u>\$ 97,432</u>	<u>\$ 1,388,606</u>
Support Services:				
Student Services	\$ 30,223	\$ -0-	\$ 23	\$ 30,246
Instructional Staff Services	-0-	-0-	10,783	10,783
Administrative Services	214,077	-0-	-0-	214,077
Operation & Maintenance of Plant Services	99,392	-0-	15,350	114,742
Transportation Services	121,286	-0-	62,519	183,805
	<u>\$ 464,978</u>	<u>\$ -0-</u>	<u>\$ 88,675</u>	<u>\$ 553,653</u>
Non-Instructional Programs	<u>\$ 25,743</u>	<u>\$ -0-</u>	<u>\$ 3,118</u>	<u>\$ 28,861</u>
Other Expenditures:				
Facilities Acquisition	\$ -0-	\$ 309,616	\$ 34,287	\$ 343,903
AEA Flowthrough	60,459	-0-	-0-	60,459
	<u>\$ 60,459</u>	<u>\$ 309,616</u>	<u>\$ 34,287</u>	<u>\$ 404,362</u>
TOTAL EXPENDITURES	\$ 1,842,354	\$ 309,616	\$ 223,512	\$ 2,375,482
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (129,261)	\$ (63,377)	\$ (93,805)	\$ (286,443)
FUND BALANCES – BEGINNING OF YEAR	<u>362,435</u>	<u>76,670</u>	<u>245,996</u>	<u>685,101</u>
FUND BALANCES – END OF YEAR	<u>\$ 233,174</u>	<u>\$ 13,293</u>	<u>\$ 152,191</u>	<u>\$ 398,658</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds (Page 19) \$ (286,443)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for Capital Assets	\$ 320,038	
Depreciation Expense	<u>(77,925)</u>	<u>242,113</u>

Change in Net Assets of Governmental Activities (Page 16) \$ (44,330)

TERRIL COMMUNITY SCHOOL DISTRICT**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

JUNE 30, 2005

	<u>School Nutrition</u>
<u>ASSETS</u>	
Cash and Cash Equivalents.....	\$ 9
Inventories.....	3,871
Capital Assets, Net of Accumulated Depreciation	<u>1,185</u>
TOTAL ASSETS	\$ <u>5,065</u>
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 488</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 1,185
Unrestricted.....	<u>3,392</u>
TOTAL NET ASSETS	\$ <u><u>4,577</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	<u>School Nutrition</u>
Operating Revenues:	
Local Sources:	
Charges for Service	\$ 41,923
Operating Expenses:	
Non-Instructional Programs:	
Food Service Operations:	
Salaries and Benefits	\$ 31,001
Benefits	20,318
Purchased Services	198
Supplies	24,190
Depreciation	<u>452</u>
TOTAL OPERATING EXPENSES	\$ 76,159
OPERATING LOSS	\$ (34,236)
Non-Operating Revenues:	
State Sources	\$ 924
Federal Sources	31,933
Interest Income	<u>108</u>
TOTAL NON-OPERATING REVENUES	\$ 32,965
CHANGE IN NET ASSETS	\$ (1,271)
NET ASSETS – BEGINNING OF YEAR	<u>5,848</u>
NET ASSETS – END OF YEAR	<u><u>\$ 4,577</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

YEAR ENDED JUNE 30, 2005

	<u>School Nutrition</u>
Cash Flows from Operating Activities:	
Cash Received from Sale of Lunches and Breakfasts	\$ 41,923
Cash Paid to Employees for Services	(51,319)
Cash Paid to Suppliers for Goods or Services	(16,968)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (26,364)</u>
Cash Flows from Non-Capital Financing Activities:	
State Grants Received.....	\$ 924
Federal Grants Received.....	24,897
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>\$ 25,821</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>\$ 108</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (435)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>444</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 9</u></u>
Reconciliation of Operating (Loss) to Net Cash Used by Operating Activities:	
Operating (Loss)	\$ (34,236)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Commodities Used	7,036
Depreciation.....	452
Decrease in Inventories	323
Decrease in Accounts Payable.....	61
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (26,364)</u></u>

Non-Cash Investing, Capital and Financing Activities:

During the year ended June 30, 2005, the District received \$7,036 of federal commodities.

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	FUNDS	AGENCY FUNDS	TOTAL
<u>ASSETS</u>			
Cash and Pooled Investments	\$ 589	\$ -0-	\$ 589
Due from Other Governments	<u>-0-</u>	<u>39,040</u>	<u>39,040</u>
TOTAL ASSETS	<u>\$ 589</u>	<u>\$ 39,040</u>	<u>\$ 39,629</u>
<u>LIABILITIES</u>			
Liabilities:			
Cash Deficit.....	\$ <u>-0-</u>	\$ <u>39,040</u>	\$ <u>39,040</u>
<u>NET ASSETS</u>			
Unreserved	<u>\$ 589</u>	<u>\$ -0-</u>	<u>\$ 589</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2005

	125	DB KIDS	TOTAL
Revenues:			
Local Sources:			
Donations and Contributions	\$ 12,823	\$ -0-	\$ 12,823
Expenditures:			
Non-Instructional.....	\$ 12,823	\$ -0-	\$ 12,823
Other Expenditures:			
Facilities Acquisition & Construction:			
Supplies	-0-	236	236
	<u>\$ 12,823</u>	<u>\$ 236</u>	<u>\$ 13,059</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	\$ -0-	\$ (236)	\$ (236)
BALANCE – BEGINNING OF YEAR	<u>-0-</u>	<u>825</u>	<u>825</u>
BALANCE – END OF YEAR	<u><u>\$ -0-</u></u>	<u><u>\$ 589</u></u>	<u><u>\$ 589</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Terril Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Terril, Iowa, and the predominate agricultural territory in the surrounding counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Terril Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. Terril Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED:

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used in specific ways.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING – CONTINUED:

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applied all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records of the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental fund types is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property taxes receivable represents unpaid taxes from the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and the fund financial statements and will not be recognized as revenue until the year for which it is levied.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

D. ASSETS, LIABILITIES AND FUND EQUITY – CONTINUED:

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements Other Than Buildings	10,000
Furniture and Equipment:	
School Nutrition Fund Equipment	500
Other Furniture and Equipment	1,500

Capital Assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements Other Than Buildings	20 years
Furniture and Equipment	5 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

TERRIL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

D. ASSETS, LIABILITIES AND FUND EQUITY – CONTINUED:

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional and other expenditures functional areas exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2005, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NOTE 3 – DUE FROM AND DUE TO OTHER FUNDS:

The details of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 21,351

The Capital Projects fund is repaying the General Fund for expenditures that are capital projects expenditures but were paid from the general fund. The balance will be repaid by June 30, 2006

NOTE 4 – INTERFUND TRANSFERS:

None.

NOTE 5 - IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP):

None.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2005

NOTE 6 – CAPITAL ASSETS:

Capital Assets activity for the year ended June 30, 2005, was as follows:

	BALANCE BEGINNING OF YEAR	INCREASES	DECREASES	BALANCE END OF YEAR
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land.....	\$ 198,664	\$ -0-	\$ 1,990	\$ 196,674
Capital Assets Being Depreciated:				
Buildings	\$ 736,783	\$ 290,340	\$ -0-	\$ 1,027,123
Furniture and Equipment.....	<u>648,829</u>	<u>81,729</u>	<u>52,606</u>	<u>677,952</u>
Total Capital Assets Being Depreciated	\$ 1,385,612	\$ 372,069	\$ 52,606	\$ 1,705,075
LESS - Accumulated Depreciation For:				
Buildings	\$ 211,701	\$ 61,579	\$ -0-	\$ 273,280
Furniture and Equipment.....	<u>115,999</u>	<u>16,346</u>	<u>-0-</u>	<u>132,345</u>
Total Accumulated Depreciation	<u>\$ 327,700</u>	<u>\$ 77,925</u>	<u>\$ -0-</u>	<u>\$ 405,625</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 1,057,912</u>	<u>\$ 294,144</u>	<u>\$ 52,606</u>	<u>\$ 1,299,450</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,256,576</u>	<u>\$ 294,144</u>	<u>\$ 54,596</u>	<u>\$ 1,496,124</u>
	BALANCE BEGINNING OF YEAR	INCREASES	DECREASES	BALANCE END OF YEAR
Business Type Activities:				
Furniture and Equipment.....	\$ 50,113	\$ -0-	\$ -0-	\$ 50,113
LESS – Accumulated Depreciation	<u>48,476</u>	<u>452</u>	<u>-0-</u>	<u>48,928</u>
Business Type Activities Capital Assets, Net	<u>\$ 1,637</u>	<u>\$ (452)</u>	<u>\$ -0-</u>	<u>\$ 1,185</u>

Depreciation expense was charged to the following functions:

Governmental Activities:	
Instruction:	
Regular	\$ 16,346
Support Services:	
Operation and Maintenance of Plant.....	<u>61,579</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 77,925</u>
Business Type Activities:	
Food Service Operations.....	<u>\$ 456</u>

NOTE 7 – LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	BALANCE BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE END OF YEAR	DUE WITHIN ONE YEAR
Early Retirement	\$ 162,546	\$ 48,223	\$ 50,713	\$ 160,056	\$ 43,338
Compensated Absences	<u>4,917</u>	<u>4,842</u>	<u>4,917</u>	<u>4,842</u>	<u>4,842</u>
TOTAL	<u>\$ 167,463</u>	<u>\$ 53,065</u>	<u>\$ 55,630</u>	<u>\$ 164,898</u>	<u>\$ 48,180</u>

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2005

NOTE 7 – LONG-TERM LIABILITIES – (CONTINUED):

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentive for each employee is based on the years of service, salary, and position in the District. Early retirement expenditures for the year ended June 30, 2005, totaled \$50,713.

NOTE 8 - PENSION AND RETIREMENT BENEFITS:

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004, and 2003. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$44,006, \$48,689, and \$53,763 respectively, equal to the required contributions for each year.

NOTE 9 - RISK MANAGEMENT:

Terril Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - AREA EDUCATION AGENCY:

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$60,459 for the year ended June 30, 2005, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TERRIL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	GOVERNMENTAL FUNDS ACTUAL	PROPRIETARY FUND ACTUAL	TOTAL ACTUAL	BUDGETED AMOUNTS FINAL	FINAL TO ACTUAL VARIANCE
RECEIPTS:					
Local Sources	\$ 1,322,543	\$ 34,995	\$ 1,357,538	\$ 1,218,935	\$ 138,603
Intermediate Sources	48	-0-	48	-0-	48
State Sources	737,675	924	738,599	733,135	5,464
Federal Sources	<u>76,147</u>	<u>31,933</u>	<u>108,080</u>	<u>170,690</u>	<u>(62,610)</u>
TOTAL RECEIPTS	<u>\$ 2,136,413</u>	<u>\$ 67,852</u>	<u>\$ 2,204,265</u>	<u>\$ 2,122,760</u>	<u>\$ 81,505</u>
DISBURSEMENTS:					
Instruction	\$ 1,388,606	\$ -0-	\$ 1,388,606	\$ 1,442,705	\$ 54,099
Support Services	553,653	-0-	553,653	671,730	118,077
Non-Instructional Programs	28,861	68,287	97,148	93,870	(3,278)
Other Expenditures	<u>346,699</u>	<u>-0-</u>	<u>346,699</u>	<u>343,192</u>	<u>(3,507)</u>
TOTAL DISBURSEMENTS	<u>\$ 2,317,819</u>	<u>\$ 68,287</u>	<u>\$ 2,386,106</u>	<u>\$ 2,551,497</u>	<u>\$ 165,391</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>\$ (181,406)</u>	<u>\$ (435)</u>	<u>\$ (181,841)</u>	<u>\$ (428,737)</u>	<u>\$ 246,896</u>
OTHER FINANCING SOURCES, Net	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>\$ (181,406)</u>	<u>\$ (435)</u>	<u>\$ (181,841)</u>	<u>\$ (428,737)</u>	<u>\$ 246,896</u>
BALANCES - BEGINNING OF YEAR	<u>593,760</u>	<u>444</u>	<u>594,204</u>	<u>644,098</u>	<u>(49,894)</u>
BALANCES - END OF YEAR	<u>\$ 412,354</u>	<u>\$ 9</u>	<u>\$ 412,363</u>	<u>\$ 215,361</u>	<u>\$ 197,002</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – BUDGET TO GAAP RECONCILIATION REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

	-----Governmental Funds-----		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,136,413	\$ (47,374)	\$ 2,089,039
Expenditures.....	<u>2,317,819</u>	<u>(57,663)</u>	<u>2,375,482</u>
Net.....	\$ (181,406)	\$ (105,037)	\$ (286,443)
 BEGINNING FUND BALANCES	 <u>593,760</u>	 <u>91,341</u>	 <u>685,101</u>
ENDING FUND BALANCES	<u>\$ 412,354</u>	<u>\$ (13,696)</u>	<u>\$ 398,658</u>

	-----Proprietary Fund Enterprise-----		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 67,852	\$ 7,036	\$ 74,888
Expenditures.....	<u>68,287</u>	<u>7,872</u>	<u>76,159</u>
Net.....	\$ (435)	\$ (836)	\$ (1,271)
 BEGINNING NET ASSETS	 <u>444</u>	 <u>5,404</u>	 <u>5,848</u>
ENDING NET ASSETS	<u>\$ 9</u>	<u>\$ 4,568</u>	<u>\$ 4,577</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based up on four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005 the disbursements in the non-instructional and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

TERRIL COMMUNITY SCHOOL DISTRICT**COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS**

JUNE 30, 2005

	MANAGE- MENT LEVY	STUDENT ACTIVITY	PHYSICAL PLANT AND EQUIPMENT LEVY	TOTAL
<u>ASSETS</u>				
Cash and Pooled Investments	\$ 32,926	\$ 6,819	\$ 114,312	\$ 154,057
Receivables:				
Property Tax:				
Delinquent	1,153	-0-	-0-	1,153
Succeeding Year	<u>82,915</u>	<u>-0-</u>	<u>-0-</u>	<u>82,915</u>
TOTAL ASSETS	<u>\$ 116,994</u>	<u>\$ 6,819</u>	<u>\$ 114,312</u>	<u>\$ 238,125</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts Payable	\$ 222	\$ 986	\$ 1,811	\$ 3,019
Deferred Revenue:				
Succeeding Year Property Tax	<u>82,915</u>	<u>-0-</u>	<u>-0-</u>	<u>82,915</u>
TOTAL LIABILITIES	<u>\$ 83,137</u>	<u>\$ 986</u>	<u>\$ 1,811</u>	<u>\$ 85,934</u>
Fund Equity:				
Unreserved Fund Balances	<u>\$ 33,857</u>	<u>\$ 5,833</u>	<u>\$ 112,501</u>	<u>\$ 152,191</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 116,994</u>	<u>\$ 6,819</u>	<u>\$ 114,312</u>	<u>\$ 238,125</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2005

	MANAGE- MENT LEVY	STUDENT ACTIVITY	PHYSICAL PLANT AND EQUIPMENT LEVY	TOTAL
Revenues:				
Local Sources:				
Local Tax	\$ 75,544	\$ -0-	\$ -0-	\$ 75,544
Other	556	25,395	3,116	29,067
Intermediate Sources	48	-0-	-0-	48
State Sources	48	-0-	25,000	25,048
Federal Sources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL REVENUES	<u>\$ 76,196</u>	<u>\$ 25,395</u>	<u>\$ 28,116</u>	<u>\$ 129,707</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction	\$ 52,431	\$ 22,830	\$ 22,171	\$ 97,432
Support Services:				
Instructional Services	23	-0-	-0-	23
Administration Services	10,258	-0-	525	10,783
Operation & Maintenance of				
Plant Services	14,101	-0-	1,249	15,350
Transportation Services	7,840	3,814	50,865	62,519
Non-Instructional Programs	856	-0-	2,262	3,118
Other Expenditures:				
Facilities Acquisition	<u>-0-</u>	<u>-0-</u>	<u>34,287</u>	<u>34,287</u>
TOTAL EXPENDITURES	<u>\$ 85,509</u>	<u>\$ 26,644</u>	<u>\$ 111,359</u>	<u>\$ 223,512</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$ (9,313)	\$ (1,249)	\$ (83,243)	\$ (93,805)
FUND BALANCES – BEGINNING				
OF YEAR	<u>43,170</u>	<u>7,082</u>	<u>195,744</u>	<u>245,996</u>
FUND BALANCES – END OF YEAR	<u><u>\$ 33,857</u></u>	<u><u>\$ 5,833</u></u>	<u><u>\$ 112,501</u></u>	<u><u>\$ 152,191</u></u>

See Accompanying Independent Auditor's Report.

TERRIL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUNDS STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2005

ACCOUNT	BALANCE BEGINNING OF YEAR	REVENUES	EXPEND- ITURES	BALANCE END OF YEAR
Drama.....	\$ 443	\$ -0-	\$ -0-	\$ 443
Athletics	11	3,196	4,193	(986)
Boys Basketball	-0-	1,194	1,194	-0-
Uniforms Fund RSRJ	5,128	930	6,009	49
Baseball	(73)	73	-0-	-0-
Boys Track	(119)	826	707	-0-
Boys Wrestling	-0-	648	648	-0-
Girls Basketball	-0-	1,138	1,138	-0-
Girls Volleyball	-0-	298	298	-0-
Girls Softball	(629)	1,108	479	-0-
Girls Track	-0-	456	456	-0-
Yearbook	(2,534)	2,534	-0-	-0-
Middle School Field Trips	-0-	11,944	8,494	3,450
Music Fund Raiser	3,063	-0-	323	2,740
Student Council	21	150	171	-0-
Class of 2004	139	-0-	139	-0-
Class of 2005	1,159	-0-	1,159	-0-
Class of 2006	230	-0-	230	-0-
Class of 2007	106	-0-	106	-0-
Cheerleaders	137	-0-	-0-	137
Vestergaard	-0-	900	900	-0-
TOTAL	\$ 7,082	25,395	26,644	5,833

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT**SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY ACCOUNTS**

YEAR ENDED JUNE 30, 2005

ASSETS	BALANCE BEGINNING OF YEAR	ADDITIONS	DEDUC- TIONS	BALANCE END OF YEAR
Due from Other Governments	\$ 39,747	\$ -0-	\$ 707	\$ 39,040
TOTAL ASSETS	<u>\$ 39,747</u>	<u>\$ -0-</u>	<u>\$ 707</u>	<u>\$ 39,040</u>
 LIABILITIES				
Cash - Deficit	\$ 39,747	\$ 63,394	\$ 64,101	\$ 39,040
TOTAL LIABILITIES	<u>\$ 39,747</u>	<u>\$ 63,394</u>	<u>\$ 64,101</u>	<u>\$ 39,040</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION ALL GOVERNMENTAL FUNDS

YEARS ENDED JUNE 30,

	MODIFIED ACCRUAL BASIS		
	2005	2004	2003
Revenues:			
Local Sources:			
Local Tax:	\$ 1,095,780	\$ 1,179,848	\$ 1,184,675
Tuition	78,458	52,315	80,404
Other	100,931	90,826	102,719
Intermediate Sources	48	413	-0-
State Sources	737,675	682,192	671,212
Federal Sources	<u>76,147</u>	<u>98,026</u>	<u>96,339</u>
TOTAL	<u>\$ 2,089,039</u>	<u>\$ 2,103,620</u>	<u>\$ 2,135,349</u>
Expenditures:			
Instruction:			
Regular Instruction	\$ 1,061,614	\$ 957,294	\$ 1,042,300
Special Instruction	272,459	250,747	230,422
Other Instruction	54,533	166,436	148,544
Support Services:			
Student Services	30,246	15,119	14,039
Instructional Staff Services	10,783	29,658	25,134
Administration Services	214,077	182,554	171,362
Operation & Maintenance of Plant Services	114,742	118,167	93,032
Transportation Services	183,805	128,703	97,045
Non-Instructional Programs	28,861	16,440	12,376
Other Expenditures:			
Facilities Acquisition	343,903	128,982	7,464
Long-Term Debt:			
Principal	-0-	275,000	-0-
Interest and Other Charges	-0-	11,440	12,650
AEA Flowthrough	<u>60,459</u>	<u>61,830</u>	<u>64,215</u>
TOTAL	<u>\$ 2,375,482</u>	<u>\$ 2,342,370</u>	<u>\$ 1,918,583</u>

See accompanying independent auditor's report.

DAVID A. MASKE

Certified Public Accountant

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Education
Terril Community School District
Terril, Iowa

I have audited the financial statements of Terril Community School District, as of and for the year ended June 30, 2005, and have issued my report thereon dated December 14, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Terril Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above, I believe item 05-I-A, is a material weakness. Prior year reportable conditions have all been resolved except for item 05-I-A.

Compliance and Other Matters

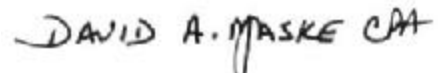
As part of obtaining reasonable assurance about whether the Terril Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Terril Community School District and other parties to whom Terril Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Terril Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

December 14, 2005
Spencer, Iowa



DAVID A. MASKE
Certified Public Accountant

TERRIL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2005

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual is responsible for the reconciliation and recording of the District's financial records.

RECOMMENDATION - I realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

RESPONSE - We will continue our review our procedures and implement additional controls where possible.

CONCLUSION - Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the certified budget amounts in the non-instructional and other expenditures functions.

RECOMMENDATION - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

RESPONSE - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

CONCLUSION - Response accepted.

05-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979, were noted.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

TERRIL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2005

- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.
- 05-II-H Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- 05-II-I Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policies were noted.
- 05-II-J Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely, and I noted no significant deficiencies in the amounts reported.